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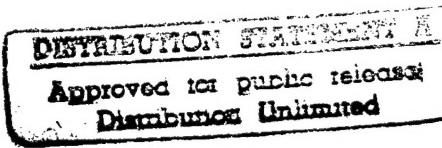
National Security and
International Affairs Division

B- 276174

April 22, 1997

The Honorable James Talent
House of Representatives

Dear Mr. Talent:



In response to your October 9, 1996, request and your January 15, 1997, letter to us, we reviewed several matters relating to the disestablishment and movement of the Army's Aviation and Troop Command (ATCOM) from St. Louis, Missouri, to Redstone Arsenal in Huntsville, Alabama. Specifically, we reviewed the Army's (1) one-time cost estimate to accomplish the realignment and (2) annual recurring savings estimate. We also reviewed health concerns you raised about a building being renovated at Redstone Arsenal. On February 24, 1997, we briefed your staff on the results of our work and, based on your request, revisited ATCOM in St. Louis to do additional work related to personnel position savings. This letter summarizes our briefing and the results of our additional work.

BACKGROUND

In 1995 the Department of Defense recommended to the 1995 Base Closure and Realignment Commission (BRAC) that ATCOM in St. Louis be consolidated with several other commands throughout the country. The major part of ATCOM, the aviation component, was to combine with the Missile Command in Huntsville, to form the Aviation and Missile Command. The Army's Aviation Program Executive Office (PEO) was also to move to Huntsville. Other ATCOM organizational elements were to realign with the Soldier Systems Command in Natick, Massachusetts, the Communications and Electronics Command in Fort Monmouth, New Jersey, and the Tank and Automotive Command in Detroit, Michigan.

BRAC recommended that the action proposed by the Department be taken and estimated a one-time cost of \$152.1 million to implement and a recurring annual savings of \$56 million that would pay back the one time cost in 3 years. The current Army BRAC budget estimates one-time costs of \$118.1 million and annual recurring savings of \$56 million, which are primarily attributed to eliminating 766 civilian positions. One-time costs include funds for transferring people and renovating an administrative building at Redstone Arsenal. Potential

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occupants of that building have raised health-related concerns based on its prior use, including use as a DDT pesticide processing and storage facility in the early 1950s.

The action is scheduled to be essentially completed by the end of fiscal year 1997, including most of the personnel moves, more than a year earlier than initially planned. According to Army officials implementing the recommendation, the action was accelerated because of the substantial savings relative to other Army base closure actions.

RESULTS IN BRIEF

The one-time closure and realignment cost of ATCOM will likely be higher than the current Army budget estimate of \$118.1 million. This increase is because certain BRAC costs were not included in the Army's BRAC budget estimate, but more importantly Army and ATCOM estimates differ by about 50 percent on the number of personnel that will make permanent changes of station. While both estimates for personnel movement costs have a basis for support, the actual number is uncertain until the affected employees decide whether they will move. The annual recurring savings, which are attributed primarily to the elimination of civilian position authorizations, will likely be less than the estimated \$56 million because 161 eliminations are not directly related to BRAC and an additional 89 are unclear as to whether they are BRAC related.

Any increase in one-time costs and/or decrease in annual recurring savings will increase the Army's estimated payback period. Because of uncertainties largely associated with permanent change of station moves, a precise estimate cannot be made. However, our analysis shows the likely payback will be between 6 and 8 years.

An agency within the U.S. Department of Health and Human Services working with the Alabama Department of Public Health has studied the Redstone building being renovated and has determined that it will provide a safe workplace. We have no basis to question the building's safety and note that air monitoring will continue when the building is occupied.

ACTUAL ONE-TIME COST DEPENDS ON NUMBER OF EMPLOYEE RELOCATIONS

We compared two different estimates of the cost to close ATCOM and relocate its employees to the receiving locations. The Army's fiscal year 1998 BRAC budget submitted to Congress in February 1997 estimated the cost at \$118.1 million. However, as of January 1997, ATCOM estimated the cost to be \$205.1 million. The major budget items of the estimates are military construction and operation and maintenance, which includes costs to relocate employees. As

shown in table 1, the major difference between the Army's BRAC budget estimate and the ATCOM estimate is in operation and maintenance.

Table 1: Difference Between Army BRAC Budget Submit and ATCOM Budget (Dollars in millions)

Budget item	Army	ATCOM	Difference
Military construction	\$42.7	\$42.9	\$0.2
Operation and maintenance	70.3	157.1	86.8
Other	5.1	5.1	0
Total	\$118.1	\$205.1	\$87.0

Military Construction

The military construction projects associated with this BRAC action are underway. The construction requirements for Redstone Arsenal are to build an administration complex and renovate a building for administration space. The estimated costs of the two projects are \$32 million and \$8.5 million, respectively. An additional \$2.2 million is estimated to convert a building into office space at Fort Monmouth, New Jersey. This estimate is well supported and is not likely to change in any substantial way.

Operation and Maintenance

The operation and maintenance cost estimates include six different categories. While there are uncertainties, our work shows that costs will be somewhat higher than the Army BRAC budget estimate. Table 2 compares six cost categories of the two operation and maintenance estimates and shows the differences.

Table. 2: Differences Between BRAC Budget and ATCOM Operation and Maintenance Estimates
(Dollars in millions)

Cost category	Army BRAC Budget	ATCOM	Difference
Permanent change of station	\$36.2	\$75.1	\$38.9
Lump sum leave	0	15.2	15.2
Restored leave	0	3.9	3.9
Program management	23.7	43.7	20.0
Severance pay	8.2	17.0	8.8
Transportation of things	2.2	2.2	0.0
Total	\$70.3	\$157.1	\$86.8

ATCOM's permanent change of station cost estimate is \$38.9 million higher than the Army's BRAC estimate because it assumed a higher number of people would relocate and the cost of each move would be higher. According to Army BRAC budget officials, the Army's permanent change of station cost estimate is based on historical experience that shows that 25 percent of the affected personnel will relocate with the organization. The ATCOM budget is based on the assumption that 53 percent of the affected personnel will relocate.

According to an ATCOM official, this percentage came from an informal survey of ATCOM supervisors. The cost per move also differs between the Army's BRAC budget and the ATCOM estimate. The Army BRAC budget estimate uses \$35,000 per move based on historical experience. The ATCOM estimate uses \$48,000 per move based on a study of employee data (e.g., marital status and percentage of home owners) and actual allowances for various moving expenses. For this reason, we believe the ATCOM figure is a better estimate of the cost to move.

- ATCOM's estimate, unlike the Army's BRAC estimate, included \$19.1 million to pay lump sum and restored leave. Lump sum leave is the accumulated leave up to 240 hours that a federal employee is allowed to carry over into a new fiscal year plus any leave the employee would have accumulated in the year the employee would leave. Restored leave applies when an organization becomes subject to a BRAC action. Army BRAC budget officials acknowledge that some amount of each leave cost will be incurred, but at the time the fiscal year 1998 BRAC budget was submitted to Congress, it was not considered a BRAC cost and was, therefore, not budgeted as such. However, Army BRAC budget officials stated that the policy on restored leave has changed because of recent legislation requiring DOD to liquidate restored leave when an employee reports to a new location. Although they have not estimated the restored leave cost for

ATCOM, they acknowledged that the total BRAC budgeted cost for the move will increase because of the restored leave.

ATCOM estimated \$43.7 million dollars for program management, which includes numerous items such as information management, office systems' layout and design, and property management. The Army's BRAC budget includes \$23.7 million for this cost. According to an Army BRAC budget official, the difference in the two estimates is primarily attributable to information management costs and various program management items that they believe are not justified as BRAC costs. For example, the ATCOM request includes funds for converting records to electronic formats, which the Army will not fund as a BRAC cost.

The ATCOM estimate for severance pay for those not relocating is \$8.8 million higher than the Army's BRAC budget estimate, even though ATCOM assumes many more personnel will relocate than does the Army BRAC estimate. Severance is a payment to an employee who is involuntarily separated from the government and is not eligible to retire. The ATCOM estimate assumes that a much larger number of those not relocating will receive severance pay.

ANNUAL SAVINGS BASED PRIMARILY
ON AUTHORIZATION ELIMINATIONS

BRAC estimated an annual savings of \$56 million from the closure and realignment of ATCOM. The majority of the savings would be from eliminating 766 civilian personnel authorizations, with the remainder from reduced operating expenses. While we found no reason to question the majority of these eliminations, our analysis showed that some of these eliminations were not BRAC related and for others the relationship to BRAC was unclear.

Based on savings attributed to the closure and realignment, ATCOM was given budget guidance to reduce its civilian personnel authorizations by 721. ATCOM officials stated that they eliminated an additional 45 authorizations to bring the total BRAC-related reductions to 766. During the same time that these reductions were being made, several other initiatives to reduce ATCOM personnel requirements were also being implemented. A study by the Army's Manpower Analysis Agency showed that 1,256 ATCOM personnel authorizations were reduced between December 1995 and August 1996 and that 766 were attributable to BRAC. However, some ATCOM employees have questioned the extent that the 766 reductions were all BRAC related and believe that the reported BRAC reductions are substantially overstated, as well as the BRAC annual savings estimate.

As requested, we examined the 766 eliminations identified by ATCOM as BRAC savings to determine whether the eliminations were in fact related to the recommended consolidation or resulted from some other initiative. We found

no reason to question the majority of these eliminations. However, we did identify 161 eliminations that we believe were not directly related to the realignment. Table 3 details those eliminations not directly related to BRAC savings.

Table 3: Description of Position Savings Not Directly Related To BRAC

Explanation	Number of Positions
Civilian Personnel Office Regionalization: This initiative affected the entire Army by introducing a new way of doing business. These positions would have been eliminated regardless of BRAC.	74
Security Assistance Management Directorate: These positions are funded by the foreign country for whom the work is being done. While the authorizations were eliminated as a result of BRAC, there were no resulting savings.	42
Balancing Reductions: As explained earlier, ATCOM budget guidance showed 721 eliminations. ATCOM had to add 45 eliminations to balance with the 766-figure shown in the BRAC budget as savings. Those eliminations should not be considered BRAC savings.	45
Total	161

In addition to the 161 authorization eliminations that we believe were not directly related to the realignment, we identified 89 other eliminations where the relationship to BRAC is unclear. According to ATCOM officials, the eliminations went beyond consolidation savings (e.g., the eliminations were taken from mission needs) and there were some eliminations that had already occurred. We were unable to substantiate the reasons given for the eliminations where the relationship to BRAC is unclear.

Given the 161 eliminations we believe are not BRAC-related savings and the 89 eliminations where the relationship to BRAC is unclear, the BRAC related reductions range from 516 to 605.

DUE TO UNCERTAINTIES
PAYBACK PERIOD COULD RANGE FROM 6 TO 8 YEARS

Payback period is the number of years before the one-time cost of an action is offset by annual recurring savings. Using current Army BRAC budget estimates of \$118.1 million one-time cost and \$56 million annual recurring savings, the payback period is 4 years.¹ As we have discussed, the actual one-time cost of this realignment will depend in large part on the number of employees that actually choose to transfer and the number actually receiving severance pay. Annual recurring savings may be less than the Army projects because civilian authorization reductions attributable to consolidation may be less than the projected 766. Given our analysis of cost and savings estimates, the payback period is likely to be longer than the Army and BRAC estimated periods. A precise estimate is not possible primarily because of the uncertainties related to personnel movement costs. However, we developed some possible payback scenarios based on our analysis of the data. For example, if we assume an actual one-time cost of \$162 million (midpoint between the BRAC budget and ATCOM estimates) and the actual number of position savings to be 516, the payback period is 6 years. Assuming ATCOM's one time cost estimate of \$205.1 million and annual savings based on eliminating 516 positions, the payback would be about 8 years.

JOINT FEDERAL/STATE HEALTH REVIEW
DECLARES RENOVATED BUILDING SAFE

On February 7, 1997, an agency of the U.S. Department of Health and Human Services, in conjunction with the Alabama Department of Public Health, issued a report on building 5681 at Redstone Arsenal. The review was requested in August 1996 by the Redstone Arsenal Army Missile Command to address continuing concerns of employees from ATCOM and PEO who were scheduled to occupy the building being renovated to provide administrative offices. The concerns stemmed from documented historical uses of the building to produce, package, and store various chemicals.

The report concluded that "exposure to chemicals remaining in the renovated building is not likely to occur; therefore, the building will provide a safe workplace." An informal group representing ATCOM and PEO reviewed the report and sent a memorandum addressing their continuing concerns to the staff who conducted the study. The representative from the federal agency stated that all of the concerns will be addressed but not until at least the end of April 1997 in order to obtain additional air samples. He did note that aggressive air sampling will be conducted after the building is occupied.

¹Our payback analysis assumes all costs are incurred in the first year and discounted recurring savings begin to accrue in the second year.

AGENCY COMMENTS AND OUR EVALUATION

The Department of Defense provided oral comments. It concurred with our report and noted that even under its worst case scenario of \$205 million in one-time costs and only 516 civilian positions eliminated, the Department would still realize significant savings from the disestablishment of ATCOM.

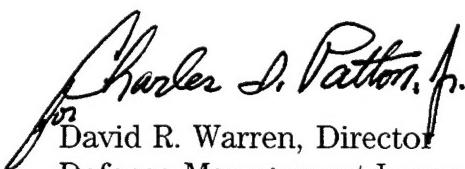
SCOPE AND METHODOLOGY

The scope of our work related to an analysis of ATCOM and Army BRAC cost and savings estimates as well as health concerns to occupants of the building being renovated for this recommendation. We reviewed documents and conducted interviews during meetings with officials from the Department of the Army, the Army Material Command, ATCOM, the Army Missile Command, the Army Manpower Analysis Agency, and an agency of the U.S. Department of Health and Human Services. We also reviewed documents on Army and BRAC work regarding ATCOM's disestablishment and realignment. In addition, we discussed in detail personnel authorization eliminations with Army Materiel Command, ATCOM and Army's Manpower Analysis Agency as to whether the action was related to BRAC or other initiatives. We did not validate Army BRAC or ATCOM budget estimates. We conducted our review between January and March 1997 in accordance with generally accepted government auditing standards.

We are providing copies of this letter to the Chairmen and the Ranking Minority Members of the Senate Committee on Armed Services and the House Committee on National Security; the Director, Office of Management and Budget; and the Secretaries of Defense and the Army. We will also make copies available to others on request.

Please contact me at (202) 512-8412 if you or your staff have any questions about this letter. Major contributors to this letter were John Klotz, Raymond C. Cooksey, and Stephen G. DeSart.

Sincerely yours,



David R. Warren, Director
Defense Management Issues

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